

WASHINGTON STATE INVESTMENT BOARD
Audit Committee Meeting Minutes
December 2, 2014

The Audit Committee met in open public session at 10:01 a.m. at the Washington State Investment Board (WSIB) boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present: Treasurer McIntire, Chair (via teleconference)
 Bill Longbrake
 George Masten
 Bob Nakahara
 Joel Sacks, Acting Chair

Absent: Arlista Holman
 Senator Sharon Nelson

Also Present: Theresa Whitmarsh, Executive Director
 Gary Bruebaker, Chief Investment Officer
 Victor Moore, Chief Operating Officer
 Liz Mendizabal, Institutional Relations Director
 Marie Steffen, Audit Director
 Mary Hougan, Administrative Assistant

 Mary Lobdell, Attorney General's Office
 Ray Holmdahl, Peterson Sullivan LLP
 Mark Raker, Peterson Sullivan LLP

[Names of other individuals attending the meeting are listed in the permanent record.]

Acting Chair Sacks called the meeting to order and took roll call.

EXTERNAL AUDIT

Fiscal Year 2014 Independent Financial Auditors' Reports

Ms. Steffen introduced Messrs. Holmdahl and Raker, Peterson Sullivan LLP. The Audit Committee appointed Peterson Sullivan LLP to perform the Fiscal Year 2014 Financial Statement Audit, which involves statements for each category of funds under management by the WSIB. Retirement Funds, Labor and Industries' Funds, Permanent Funds, Guaranteed Education Tuition Fund, and Developmental Disabilities Endowment Trust Fund.

The independent auditors' reports and the respective financial statements prepared by management were reviewed. The auditor concluded in each case the financial statements were presented fairly in all material respects. The auditor did not detect any material misstatements and no disagreements arose during the course of the audits. The auditor did not issue a management letter for new or repeat deficiencies in internal control and did not propose any adjustments to the fiscal year 2014 financial statements.

[Treasurer McIntire joined via teleconference at 10:17 a.m.]

Mr. Sacks asked the auditors if they have access to management letters and exit items that come out of the audited reviews from general partners. Mr. Holmdahl said it is standard to request all documentation for a specific fund, and no management letters were issued related to those audits.

Mr. Holmdahl reviewed the upcoming changes that will have an effect on WSIB. He said the Governmental Accounting Standards Board's Statement on fair value measurements is expected to be finalized and issued in February 2015, with an effective date of June 30, 2016. Investments will be presented in categories; investments with quoted prices will be categorized as level 1, and investments valued using other information will be categorized as level 2 or level 3.

Mr. Nakahara inquired about staffing implications with the changes. Mr. Holmdahl said level 3 will require more record keeping and investment tracking. Mr. Longbrake asked if the audit work will be different. Mr. Holmdahl said the auditor will focus on the disclosure of the financial statements and perform an intense review of management's responses to ensure the right level is being used and they are properly described.

Mr. Masten moved that the Audit Committee recommend the Board approve the Fiscal Year 2014 Independent Auditors' Reports. Treasurer McIntire seconded, and the motion carried unanimously.

ADOPTION OF THE SEPTEMBER 9, 2014, MINUTES

Treasurer McIntire moved to adopt the September 9, 2014, Audit Committee meeting minutes. Mr. Masten seconded, and the motion carried unanimously.

EXECUTIVE SESSION

Mr. Sacks announced the Committee would go into executive session to review and discuss financial and commercial information relating to an investment since public knowledge regarding the discussion would result in loss to the funds managed by the WSIB or would result in private loss to the providers of the information. He said the executive session was expected to last until about 10:50 a.m., at which time the Committee would reconvene in open session.

[The Committee went into executive session at 10:32 a.m.]

Discussion with External Auditors

[The Committee reconvened in open session at 10:52 a.m.]

Mr. Sacks congratulated and thanked WSIB staff on the results of the audit. Mr. Moore also thanked Kris Logan and her staff on a job well done.

INTERNAL AUDIT

Audit Recommendations Status Report

Ms. Steffen reported on the status of follow-up activities related to prior audit recommendations. Over the past quarter, management resolved two of three prior recommendations. The Third-Party Record Keeper Reviews corrective action is expected to be completed by the end of first quarter 2015.

Audit Plan Quarterly Status Report

Ms. Steffen presented the Audit Plan Quarterly Status Report. The report contained the planned audits for Fiscal Year 2015 approved by the Board and the expected completion dates. The Public Market Investment Compliance Monitoring Audit completion date has been moved from March 2015 to June 2015. The Internal Auditor Recruitment has been completed and the selected candidate will start in December. Ms. Steffen said she is in the process of refreshing the Audit Services Provider Pool as recommended by Mr. Sacks for the outsourced audits. She reported 12 firms responded, and recommendations for the

Financial Statement Auditor and the IT Security and Data Warehouse Auditor will be brought to the Committee in March.

Mr. Longbrake requested the IT work order that was used in the last security audit be distributed to the Committee and to ensure best practices are incorporated when creating the work order for the current audit.

MANAGEMENT

Investment Referral Quarterly Report

Ms. Whitmarsh presented the quarterly investment referral log to the Committee and noted four more referrals were added this quarter.

There was no further business to come before the Committee, and the meeting adjourned at 11:13 a.m.